

Message Text

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ORIGIN EB-07

INFO OCT-01 ARA-10 ISO-00 ERDA-07 AID-05 CEA-01 CIAE-00

CIEP-02 COME-00 DODE-00 FEAE-00 FPC-01 H-02 INR-07

INT-05 L-02 NSAE-00 NSC-05 OMB-01 PM-03 SAM-01 OES-05

SP-02 SS-15 STR-04 TRSE-00 FRB-01 /087 R

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FEA - MR. GRANTHAM

L/EB - MR. PITMAN

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R 011907Z MAY 75

FM SECSTATE WASHDC

TO AMEMBASSY CARACAS

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E.O. 11652:

TAGS: ENRG, VE

SUBJECT: US OIL IMPORT REGULATIONS

REF: GRAHAM/BUTCHER TELCON

1. IN RESPONSE TO MINISTRY OF MINES QUESTIONS CONCERNING
POSSIBLE EFFECTS OF US OIL IMPORT REGULATIONS AND FEA
ENTITLEMENTS PROGRAM ON VENEZUELAN OIL EXPORTS TO US YOU
MAY PASS ALONG GENERAL INFORMATION PROVIDED BELOW. THIS
IS NECESSARILY A CURSORY DESCRIPTION OF THESE REGULATIONS,
AND MINISTRY SHOULD REFER TO VARIOUS ANNOUNCEMENTS IN THE
FEDERAL REGISTER OR, MORE CONVENIENTLY TO "FEDERAL
ENERGY GUIDELINES", PUBLISHED BY COMMERCE CLEARINGHOUSE
AND CONTINUOUSLY UP-DATED TO SHOW LATEST FEA REGULATIONS.
WE WILL MAKE SURE VENEZUELAN EMBASSY HERE RECEIVES
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"FEDERAL ENERGY GUIDELINES" IN THE FUTURE. WE ASSUME

THAT THIS INFORMATION WILL BE PASSED TO MINISTRY AT WORKING LEVEL IN AN INFORMAL MANNER. WE WOULD APPRECIATE REPORT BY CABLE IF GOV AGAIN RAISES QUESTION OF US DOMESTIC OIL REGULATIONS AFFECTING VENEZUELAN EXPORTS TO US.

2. US PETROLEUM IMPORT REGULATIONS ARE BASED ON PRESIDENTIAL PROCLAMATION 3279 OF MARCH 10, 1959 (24 FED. REG.

1781), AS FREQUENTLY AMENDED SINCE THAT TIME. MOST NOTABLY, PROCLAMATION 4210 OF APRIL 18, 1973 (38 FED. REG. 9645) AMENDED PROC. 3279 TO REPLACE ORIGINAL QUOTA SYSTEM FOR OIL IMPORTS WITH FEE SYSTEM FOR OBTAINING IMPORT LICENSES. TWO RECENT PROCLAMATIONS (4341 OF JANUARY 24, 1975 (40 FED. REG. 3965) AND 4355 OF MARCH 4, 1975 (40 FED. REG. 10437) ANNOUNCED ESTABLISHMENT OF SUPPLEMENTAL FEES TO BE ASSESSED OVER TIME ON IMPORTS OF CRUDE OIL AND PRODUCTS. A \$1.00 PER BARREL FEE HAS BEEN ASSESSED ON IMPORTS SINCE FEBRUARY 1, 1974, AND UNDER PROCLAMATION 4355 THIS FEE WILL BE RAISED TO \$2.00 BBL ON MAY 1 AND \$3.00 BBL ON JUNE 1, 1975. THE PRESIDENT DECIDED APRIL 30 TO DELAY THESE INCREASES.

3. OIL ENTITLEMENTS PROGRAM ADMINISTERED BY FEA IS DESIGNED TO EQUALIZE CRUDE OIL COSTS AMONG REGIONS AND REFINERS BY ASSURING THAT REFINERS ACCESS TO PRICE-CONTROLLED DOMESTIC CRUDE OPERATES ON A PROPORTIONATE BASIS. FEA DETERMINES EACH MONTH THE PERCENTAGE OF TOTAL US REFINERY RUNS REPRESENTED BY RECEIPTS OF PRICE-CONTROLLED DOMESTIC CRUDE (OLD CRUDE), UNCONTROLLED DOMESTIC CRUDE AND IMPORTED CRUDE. FEA ISSUES TO EACH REFINER ENTITLEMENTS WHICH ALLOW THE REFINER TO RECEIVE INTO REFINERY INVENTORY A SPECIFIED NUMBER OF BARRELS OF OLD OIL. THIS AMOUNT IS DETERMINED ON A PERCENTAGE BASIS SO THAT, IF 41 OF TOTAL NATIONAL CRUDE RUNS IS SUPPLIED FROM OLD CRUDE OIL RECEIPTS, EACH REFINER WILL HAVE ACCESS THROUGH ITS ENTITLEMENTS TO A QUANTITY OF OLD CRUDE EQUAL TO 41 OF ITS TOTAL CRUDE RUNS. UNDER THIS EXAMPLE, FOR A REFINER TO RECEIVE INTO INVENTORY AN AMOUNT OF OLD CRUDE EXCEEDING 41 OF HIS TOTAL CRUDE RUNS, THE REFINER WOULD NEED TO PURCHASE ENTITLEMENTS FROM A SELLER OF ENTITLEMENTS.

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MENTS. TRANSFERS OF ENTITLEMENTS ARE MONITORED BY FEA, BUT REFINERS ARE FREE TO CHOOSE OTHER REFINERS FOR THESE TRANSACTIONS.

4. COMPANIES BENEFITING FROM ENTITLEMENTS PROGRAM ARE REQUIRED TO DEMONSTRATE BY AUDIT COMPLIANCE WITH PRICING REGULATIONS THAT GENERALLY LEAD TO SELLERS OF ENTITLEMENTS APPLYING THEIR REVENUES TO LOWER PRODUCT

PRICES TO CONSUMERS.

5. VALUE OF ENTITLEMENTS IS DETERMINED BY CALCULATING, ON WEIGHTED AVERAGE BASIS, DIFFERENCES IN OIL COSTS BETWEEN UNCONTROLLED (DOMESTIC AND IMPORTED) AND CONTROLLED

OIL. VALUE FOR ENTITLEMENTS ISSUED IN FEBRUARY 1975 WAS \$6.75 PER ENTITLEMENT. CHANGE IN COST OF IMPORTED OIL TO INDIVIDUAL REFINERS WOULD ONLY marginally CHANGE OVER-ALL VALUE OF ENTITLEMENTS SINCE LATTER FIGURES DETERMINED BY WEIGHTED AVERAGE PRICE DIFFERENTIALS ON ALL UNCONTROLLED (DOMESTIC AND IMPORTED) AND CONTROLLED OIL.

6. INCREMENTAL ENTITLEMENTS ARE ALSO ISSUED TO SMALL REFINERS.

7. REGULATIONS WHICH WOULD ASSESS DISPROPORTIONATE FEES ON GASOLINE IMPORTS -- AS OPPOSED TO FUEL OIL OR OTHER PRODUCT IMPORTS -- ARE ALSO UNDER CONSIDERATION.

8. RE QUESTION ON TREATMENT OF OIL ENTERING US VIA US VIRGIN ISLANDS (VI), APRIL 3, 1975 FEA REGS. IMPLEMENTING PROC. 4355 (SEE 40 FED. REG. 16047) DESCRIBE PROCEDURE THROUGH WHICH OIL REFINERS LOCATED IN VI CAN PARTICIPATE IN ENTITLEMENTS PROGRAM. BRIEFLY, REFINERS IN VI PARTICIPATING IN PROGRAM MUST PAY FEES ON IMPORTED OIL EQUAL TO THOSE PAID ON IMPORTS INTO CONTINENTAL US ALTHOUGH VI REFINERS WERE GIVEN CHOICE OF TWO ACCOUNTING METHODS FOR ASSESSING FEES. FEES ARE ASSESSED ONLY ON THAT PORTION OF OIL SHIPPED FROM VI TO US. AMERADA HESS REFINING IN VI RECEIVED 2.143 MILLION ENTITLEMENTS IN FEBRUARY 1975. AS INDICATED ABOVE, LOWERED COSTS TO UNCLASSIFIED

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HESS MUST BE PASSED ON TO PURCHASERS OF HESS PRODUCTS OR MAY BE REDUCED TO OFFSET PRIOR BANKED COSTS (ALLOWABLE CEILINGS WHICH MARKET WOULD NOT BEAR).

9. ENTITLEMENTS PROGRAM IS DESIGNED TO LEVEL COSTS AMONG REGIONS AND REFINERS AND SHOULD NOT SIGNIFICANTLY AFFECT US IMPORTS FROM VENEZUELA. HOPE ABOVE INFORMATION IS HELPFUL BUT EMPHASIZE THAT MINISTRY SHOULD CONSULT COMPLETE TEXTS OF REGULATION FOR ASSESSMENT OF THESE PROGRAMS. WE ARE CHECKING WITH FEA ON BETTER WAYS OF DISTRIBUTING INFORMATION ON ENERGY REGULATIONS TO YOU AND OTHER EMBASSIES. KISSINGER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM, IMPORT CONTROLS
Control Number: n/a
Copy: SINGLE
Draft Date: 01 MAY 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975STATE101692
Document Source: CORE
Document Unique ID: 00
Drafter: LBUTCHER;CJH
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750153-0911
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750589/aaaaddmc.tel
Line Count: 166
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN EB
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: ShawDG
Review Comment: n/a
Review Content Flags:
Review Date: 10 JUL 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <10 JUL 2003 by SilvaL0>; APPROVED <03 MAR 2004 by ShawDG>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: US OIL IMPORT REGULATIONS
TAGS: ENRG, VE, US
To: CARACAS
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006